

Lianhe Global has assigned ‘BBB+’ global scale Long-term Issuer Credit Rating with Stable Outlook to Qingdao Jiaozhou Bay Development Group Co., Ltd.

HONG KONG, 31 March 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB+’ global scale Long-term Issuer Credit Rating to Qingdao Jiaozhou Bay Development Group Co., Ltd. (“JZBD” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that Jiaozhou People’s Government (“the Jiaozhou government”) would provide strong support to JZBD if needed, in light of its indirectly full ownership of JZBD, JZBD’s strategic importance as the most important local investment and development company (“LIDC”) responsible for infrastructure construction and primary land development in China-SCO Local Economic and Trade Cooperation Demonstration Area (“SCODA”), and the linkage between the Jiaozhou government and JZBD, including the appointment of the senior management, strategic alignment, supervision of major financing plan and investment decisions and ongoing operational and financial support. In addition, the Jiaozhou government may face significant negative impact on its reputation and financing activities if JZBD encounters any operational and financial difficulties.

The Stable Outlook reflects our expectation that JZBD’s strategic importance would remain intact while the Jiaozhou government will continue to ensure JZBD’s stable operation.

Key Rating Rationales

Government’s Ownership and Supervision: State-owned Assets Service Center of Jiaozhou holds 100% shares of JZBD through Qingdao Shanghe Holding Development Group Co., Ltd., an LIDC in Jiaozhou. The local government has strong control over the company, including the appointment of senior management and supervision of development strategy, major financing plan and investment decisions. In addition, the local government has formulated a performance assessment policy for the company, and regularly appoints auditors to review the company’s operating performance and financial position.

Strategic Importance and Strategic Alignment: JZBD’s development plan has been aligned with the local government’s economic and social policies. The company is the most important LIDC responsible for infrastructure construction and primary land development in SCODA, which is located on the north coast of Jiaozhou Bay in Qingdao. The development of SCODA, aiming at promoting international trade, two-way investment and business tourism culture exchange between SCO countries, is a prioritized task of Qingdao and Jiaozhou. JZBD’s ultimate controller is the Management Committee of SCODA, a branch of the Qingdao Municipal Government, carrying out day-to-day supervision over the company.

Ongoing Government Support: JZBD received ongoing operational subsidies from the local government, amounting to RMB712 million between 2019 and the first nine months of 2022.

In addition, the government reimbursed a part of JZBD's financial costs relating to development projects in SCODA. The local government also injected a series of assets amounting to RMB10.3 billion between 2019 and the first nine months of 2022. That mainly includes 51% shares of Qingdao Shanghe Cornerstone Investment Development Group Co., Ltd., another important LIDC in Jiaozhou, of RMB7.4 billion and water area use rights of RMB2.3 billion, which generated rental incomes of RMB94 million and RMB71 million in 2021 and the first nine months of 2022, respectively.

Economy and Fiscal Condition of Jiaozhou: Jiaozhou, a county-level city under the jurisdiction of Qingdao, is an important processing and manufacturing base in Jiaodong Peninsula with a strong industrial foundation. Jiaozhou realized a GDP of RMB154.1 billion in 2022. The GDP growth rate slowed to 5.0% in 2022, mainly caused by the COVID disruption during the year. Yet both its GDP scale and GDP growth rate were ranked 2nd among ten jurisdictions in Qingdao in 2022.

The Jiaozhou government's budgetary revenue decreased slightly to RMB11.3 billion in 2022 from RMB11.5 billion in 2021 due to the value-added tax credit refunds to support the economy. Its government fund income, mainly generated by land sales, dropped sharply to RMB6.6 billion in 2022 from RMB10.0 billion in 2021, owing to the weak property market. As a result, the Jiaozhou government recorded aggregate revenue of RMB21.8 billion in 2022, down from RMB26.8 billion in 2021. In contrast, its government debt grew significantly in 2022, lifting the government debt ratio, as measured by total government debt/aggregate revenue, to 140.7% from 100.5% over the same period.

JZBD's Financial and Liquidity Position: JZBD's asset size grew significantly by 109.3% to RMB69.1 billion at end-September 2022 from RMB33.0 billion at end-2019. This was mainly attributed to the company's active involvement in infrastructure construction and primary land development projects in SCODA. In addition, the local government also injected assets such as water area use rights, equities of SOEs and LIDCs and properties into JZBD, enlarging its equity base to RMB25.0 billion from 13.5 billion over the same period. JZBD also relied on debts to finance its asset expansion. The company's total debt grew by 121.2% to RMB38.1 billion at end-September 2022 from RMB17.2 billion at end-2019, pushing its financial leverage, as measured by debt/capitalization, to 60.4% from 56.1%.

The liquidity of JZBD was moderately weak. At end-September 2022, JZBD had a cash balance of RMB4.8 billion (including restricted cash of RMB1.5 billion) compared with its debts due within one year of RMB10.9 billion. JZBD has access to various financing channels, including bank borrowings, bond issuances and other non-traditional financings, to support its debt repayments and business operations. The company had unused bank credit lines of RMB13 billion at end-September 2022. Nevertheless, the company needs to successfully roll over its short-term bank borrowings (RMB3.2 billion at end-September 2022) and obtain additional financing sources or government support to maintain its liquidity.

Rating Sensitivities

We would consider downgrading JZBD's rating if (1) there is perceived weakening in support from the Jiaozhou government, particularly due to its reduced strategic importance with diminished government functions, or (2) there is a significant reduction of the Jiaozhou government's ownership of JZBD, or (3) there is a downgrade in our internal credit assessment on the Jiaozhou government.

We would consider upgrading JZBD's rating if (1) there is strengthened support from the Jiaozhou government, or (2) there is an upgrade in our internal credit assessment on the Jiaozhou government.

About Lianhe Global

Lianhe Global is an international credit rating company that provides credit ratings to corporations, banks, non-bank financial institutions, local investment and development companies, and other asset classes around the globe. Lianhe Global also provides credit risk research and other services related to credit ratings.

Rating Methodology

The principal methodology used in this JZBD's rating is Lianhe Global's China Local Investment and Development Companies Criteria published on 5 December 2022, which can be found at the website www.lhratingsglobal.com.

Note: The above Issuer/Issuance Credit Ratings are solicited at the request of the rated entity or a related third party.

Contact Information

Primary Analyst
Roy Luo
Senior Associate
(852) 3462 9582
roy.luo@lhratingsglobal.com

Committee Chairperson
Toni Ho
Director
(852) 3462 9578
toni.ho@lhratingsglobal.com

Business Development Contact
Joyce Chi
Managing Director
(852) 3462 9569
joyce.chi@lhratingsglobal.com

Disclaimer

Credit rating and research reports published by Lianhe Ratings Global Limited (“Lianhe Global” or “the Company” or “us”) are subject to certain terms and conditions. Please read these terms and conditions at the company’s website: www.lhratingsglobal.com

A credit rating is an opinion which addresses the creditworthiness of an entity or security. Credit ratings are not a recommendation to buy, sell, or hold any security. Credit ratings do not address market price, marketability, and/or suitability of any security nor its tax implications or consequences. Credit ratings may be subject to upgrades or downgrades or withdrawal at any time for any reason at the sole discretion of Lianhe Global.

All credit ratings are the products of a collective effort by accredited analysts through rigorous rating processes. No individual is solely responsible for a credit rating. All credit ratings are derived by a credit committee vesting process. The individuals identified in the reports are solely for contact purpose only.

Lianhe Global conducts its credit rating services based on third-party information which we reasonably believe to be true. Lianhe Global relies on information including, but not limited to, audited financial statements, interviews, management discussion and analysis, relevant third-party reports, and publicly available data sources to conduct our analysis. Lianhe Global has not conducted any audit, investigation, verification or due diligence. Lianhe Global does not guarantee the accuracy, correctness, timeliness, and/or completeness of the information. Credit ratings may contain forward-looking opinions of Lianhe Global which may include forecasts about future events which by definition are subject to change and cannot be considered as facts.

Under no circumstances shall Lianhe Global, its directors, shareholders, employees, officers and/or representatives or any member of the group of which Lianhe Global forms part be held liable to any party for any damage, loss, liability, cost, expense or fees in connection with any use of the information published by the company.

Lianhe Global receives compensation from issuers, underwriters, obligors, or investors for conducting credit rating services. None of the aforementioned entities nor its related parties participate in the credit rating process aside from providing information requested by Lianhe Global.

Credit ratings included in any rating report are solicited and disclosed to the rated entity (and its agents) prior to publishing. Credit rating and research reports published by Lianhe Global are not intended for distribution to, or use by, any person in any jurisdiction where such use would infringe local laws and regulations. Any user relying on information available through credit rating and research reports is responsible for consulting the relevant agencies or professionals accordingly to comply with the applicable local laws and regulations.

All published credit rating and research reports are the intellectual property of Lianhe Global. Any reproduction, redistribution, or modification, in whole or part, in any form by any means is prohibited unless such user has obtained prior written consent from us.

Lianhe Global is a subsidiary of Lianhe Credit Information Service Co., Ltd. The credit committee of Lianhe Global has the ultimate power of interpretation of any methodology or process used in the company’s independent credit ratings and research.

Copyright © Lianhe Ratings Global Limited 2023.